

Inactive Accounts

Issue

Should inactive accounts of non-vested members be removed from the system?

Background

When members leave employment, they can choose to leave their contributions in the retirement system. According to the Department of Retirement Systems (DRS), managing these accounts has been administratively burdensome; especially once the person reaches the IRS required minimum distribution age and must take account distributions each year.

Highlights

- ❖ The bill draft would require DRS to engage in rulemaking related to the refunding and removal of non-vested inactive accounts.
 - ◇ Refunds would terminate the right to future benefits, but current law allows rehired employees to restore service credit.
- ❖ The bill draft defers all details to DRS to determine in the future.
 - ◇ As a result, staff analysis is limited.
- ❖ DRS has general authority for rulemaking, but legislation requiring that rulemaking provides greater authority for the rulemaking than a discretionary decision.
- ❖ Enacting the bill draft could slow growth of new inactive accounts, and remove some current accounts.
 - ◇ It's unclear how many current non-vested inactive accounts could be removed due to the difficulty of locating the former members.
- ❖ DRS believes this could be enacted consistent with federal tax law.

Committee Activity

The Select Committee on Pension Policy instructed staff to work with DRS to craft a proposal that would help DRS remove non-vested inactive accounts from the system. At the 2020 September meeting, the Committee voted to sponsor the bill draft for the 2021 Legislative Session.

Recommendation to the 2021 Legislature

Sponsor the bill draft (Z-0061.1) for the 2021 Legislative Session.

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